

CORPORATE PRODUCTIVITY PERFORMANCE: A HARMONIST FRAMEWORK

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ABSTRACT

Measuring corporate performance has often been controversial in terms of what exactly it is, how it should be measured and how its measures should be employed. This has resulted in the existence of different schools of thought on it, covering financial and strategic perspectives. The debate seems to be on-going with the emergence of perspectives that seek more “relevance to use” in different studies and instances of managing. This paper examines the debate and suggests measures of a concept of Corporate Productivity Performance that are more relevant to Organizational Behavior in a harmonist perspective.

KEYWORDS: Corporate Productivity Performance, Cost Minimization, Product Dimension, Product Level, Product Line, Product Quality, Resource Utilization, Time Minimization, Waste Minimization

INTRODUCTION

Corporate performance refers to the record of achievements made by an organization (a corporation) at, or over a given, time measurable through several indices. It is measured by the extent to which an organization achieves set objectives or executes its strategies; hence performance measures are sourced from both corporate objectives and strategies. There is, however, a controversy over how best to measure corporate performance. The existence of diverse concepts, measures and approaches to corporate performance is evident of this controversy. The best approach to or indicator of corporate performance is still an on-going debate which could be expressed thus: “performance lag versus performance lead indicators”. We shall briefly examine this debate with a view to developing our framework of corporate performance measures.

Frost (2004 a:1) gives the nature and direction of the aforementioned debate or controversy. According to him:

For over 15 years, there’s been significant criticism of how corporate performance is measured and understood. Corporate leaders, shareholder advocates, and academic authors have all pointed out the shortcomings of traditional financial reports for managing accountability and driving performance....There has been a parallel trend underway toward more accurate pictures of performance. From the shop floor to the boardroom, we have seen a steady stream of new ideas and better formulas for understanding performance (Frost, 2004a:1).

From our literature survey of the controversy, the issues fall into at least three categories. First, what should be measured: objectives or strategies? Second, how should it be measured: financial or strategic measurement? Third, what purpose should the measurement serve: reporting or driving performance? On each of these sets of issues, there are two types of proponents: “financialists” and “strategists” offering financial and strategic measures respectively.

Financial Vs Strategic Measures of Corporate Performance

The financialists emphasize objectives and goals, financial measures and reporting performance. For them the best measure of corporate performance is profitability, output volume, and growth. They often assert thus:

Profitability reflects the overall performance of for-profit organizations. Profitability may be expressed in terms of net income, earnings per share or return on investment. Other overall goals are growth and output volume. Growth pertains to increases in sales or profits overtime. Volume pertains to total sales or the amount of products or services delivered (Daft, 2001: 53).

The financialists have been criticized as using performance lag indicators (reporting performance that has occurred). According to Frost (2004 a:1), their “reports tend to be geared toward tax and regulatory matters; they mix controllable and uncontrollable performance factors; they present many investments as expenses; they routinely mix tangible, real dollars (naira) with intangible accounting dollars; and so forth.” These criticisms are akin to “throwing the baby out with the bath water.” Thompson and Strickland (2001: 9, 42) are more compromising as they consider the financial measures of performance necessary and important. Though strategists, they argue that, from a company-wide perspective, there are two distinct types of performance yardsticks: financial and strategic performance. According to them:

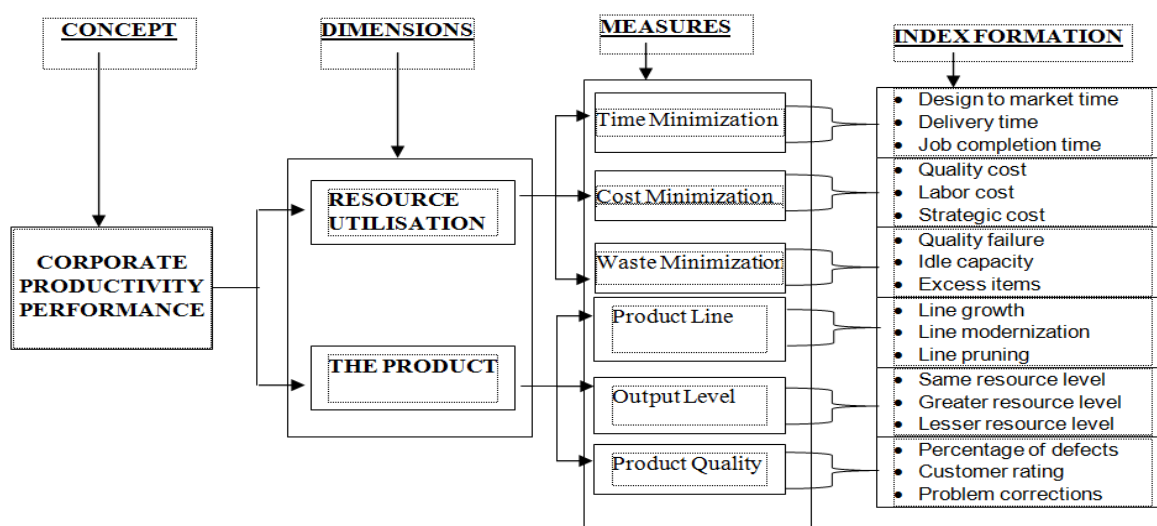
Achieving acceptable financial results is crucial.... Achieving acceptable financial performance is a must; otherwise the organization’s financial standing can alarm creditors and shareholders, impair its ability to fund needed initiatives, and perhaps even put its very survival at risk (Thomson & Strickland, 2001: 9, 42).

As strategists, their position on the three issues earlier identified in the “performance lag versus performance lead indicators” controversy is not in doubt. They emphasize strategies, strategic performance and driving performance. While accepting financial objectives, performance or results as crucial, they argue that the achievement of satisfactory financial performance is not enough by itself, and as such managers “must also pay attention to the company’s strategic well-being – its competitiveness and overall long-term business position” (Thompson and Strickland). According to them, the measures of strategic performance (overall long-term market position and competitiveness) include: (i) additional market share, (ii) beating competitors, (iii) lower overall costs, (iv) boosting company’s reputation, (v) stronger foothold in internal markets, (vi) technological leadership, (vii) competitive advantage, and (vii) capturing attractive growth opportunities. Thompson and Strickland’s (2001) treatment of financial and strategic performance, as “two distinct types of performance”, does not satisfy some scholars and practitioners. Because these people consider these two, even enlarged them, as dimensions (in harmony) of the same phenomenon, corporate performance, we have elected to call them the “Harmonists”. For these people, objectives and strategies should be measured, financial and strategic performance measures should be employed, and performance measurement should both report and drive performance. They account for the emergent discipline, Business Performance Measurement-BPM (Kellen, 2002).

The Harmonist Framework

The harmonists criticize the proponents of both financial and strategic performance for using tactical key performance indicators (KPI) or metric scorecards. According to them, individual measures are not necessarily indicative of overall corporate strategy. (Corvu Plc, 2003). Obviously, the most distinguishing element of the harmonist approach is the “holistic perspective”. This perspective is based on the belief that performance measures do not only review performance, they also help to manage performance by providing an accurate tracking of enterprise performance,

stimulating actions on emerging issues, supplying a rich backdrop of relevant information against which to make strategic decisions, helping in strategy implementation to improve earnings through accountability alignment, process improvement and suppliers added value (Frost, 2004b; 2004c). The first and dominant holistic approach to corporate performance measurement is the “Balanced Scorecard” introduced by Kaplan and Norton in the early nineties (Armstrong, 2001). Kellen (2003) describes it as the “dominant framework in use today”, that it calls attention to core issues and opportunities in business performance measurement. There are several other descriptions (Corvu Plc, 2003; Haazen, 2002). The balanced scorecard, however, is equally being criticized (Barr, 2005; Shane, 2004; Neely and Adams, 2002). Indeed, the criticisms, nay, the controversy, seems to be unending. In fact, there is no methodology or framework of performance that has been criticism-free. Attempts are still ongoing to introduce more and more (or better?) approaches to, or indicators of, corporate performance – be it financial, strategic performance or both. However, a time tested framework is that which uses the concepts of effectiveness and efficiency. It is, therefore, conceivable to have two more concepts of corporate performance namely: Effective Performance and Efficient Performance.



Source: Author's Desk Research

Figure 1: Harmonist Framework of Corporate Productivity Performance

The concepts of effectiveness and efficiency as measures of performance, either for the individual, group or organization, were first introduced by Peter Drucker (Stoner *et al*, 1996). Organizational performance has often been defined in terms of these two concepts. For example, Stoner *et al* (1996) describe organizational performance as the “measure of how efficient and effective an organization is – how well it achieves appropriate objectives.” Diverse definitions of these two concepts have been offered by scholars (Daft, 2001; Stoner *et al*, 1996; Bateman and Snell, 1999). Just as it is with the corporate performance concepts of financial and strategic performance, there are diverse measures or approaches to measuring effective and efficient performance. (Daft, 2001); Kreitner and Kinicki, 2001; Gibson *et al*, 1997). In Robbins’ (1996) framework, specific examples of efficiency measures are cited; such as return on investment, profit per dollar (naira) of sales, output per hour of labor and sales per labor cost. We find Robbins’ (1996: 26) framework very interesting because of its link to, not just organizational performance, but productivity. According to Robbins, productivity is a “performance measure including effectiveness and efficiency.” He asserts that it is one of the dependent variables Organizational Behavior seeks to explain or predict; and is a critical indicator of how effective an organization’s human resources are.

What the above paragraph suggests is a corporate performance concept or measure that is more relevant to organizational behavior. This concept is productivity performance. This brings to five our concepts of corporate performance. In other words, there are several measures of corporate performance. Most of them, if not all could, fall into any or all of, the five approaches or perspectives namely: Financial, Strategic, Effective, Efficient, and Productivity Performance. Our preference is for productivity performance; hence the concept of **CORPORATE PRODUCTIVITY PERFORMANCE (CPP)**. The reasons for our choice are several and will become evident soon. For instance, we find productivity performance as being basic to financial and strategic performance; as being inclusive of effective and efficient performance; and as being more directly related to organizational behavior variables. By extending the thoughts of the authors to whom we have made references in the preceding paragraphs and describing productivity performance as the performance of an organization measured in terms of its effectiveness and efficiency, we have constructed two dimensions and selected six indicators of corporate productivity performance. These dimensions are Resource Utilization and Product (See our conceptual framework, Figure 1).

RESOURCE UTILIZATION DIMENSIONS

The Resource Utilization (RU) dimension emerges from our definition of efficient performance. Efficiency refers to the accomplishment of goals with minimum resources or waste. It is measured as the ratio of output to input as evident in resource maximization indices. Important resources include speed, money and raw materials and organizations make maximum use of these by minimizing time, cost and waste. Thus, the resource utilization dimension in our framework deals with how efficiently a company uses its resources in achieving set targets. So it includes measures such as: (a) Time Minimization, (b) Cost Minimization, and (c) Waste Minimization. That speed and time are important resources, that organizations seek to maximize speed and minimize time, and that the way they do these indicates their performance should be obvious. Speed and time were the essence of time and motion studies since the days of scientific management introduced by Taylor that led to management efficiency. They are the sources of competitive advantage and “Time-based Competition (TBC)” (Bateman and Snell, 1999). They aim at reducing the total time it takes to deliver a product or service, and this is because they entail fast and timely design, execution, response and delivery of results. It is, therefore, very apt to say: Organizations must respond to market needs quickly by introducing new products fast; quickly delivering customer orders; and responding quickly to customer requests” (Bateman and Snell, 1999). There are, therefore, at least three possible indices of time minimization. These are: (1) Design-to-market Time, (ii) Product Delivery Time, and (iii) Job Completion Time. These indices are based on our conception of time as the amount of man-hour spent or duration taken to accomplish a task.

With respect to cost minimization, our interest is on monetary expenses incurred as a measure of corporate productivity performance. Cost is conceived as expenses incurred on production factors and activities. There is no doubt that every organization seeks to minimize its expenses as much as possible as a way of maximizing profit. This has been pursued through concepts such as cost effectiveness and cost reduction. Though there are various concepts of cost as could be gleaned from Baumbach’s (1983) discussion of profit planning and control, we shall limit ourselves to three here. These are (i) Quality, (ii) Labor, and (iii) Strategic costs. According to Bateman and Snell (1999), one of the four sets of “bottom line” practices companies must deliver to their customers relate to cost. They assert that goods and services must be available at prices customers are willing to pay and to make this possible, managers must keep costs under control to allow the company to set fair prices that cover costs and achieve profit. In their opinion, there are three different types of

costs involved in “product production”; and these are prevention, appraisal and failure costs (Bateman and Snell, 1999). For them, these costs do not only involve trade-offs in their methods of variation, they are components of total cost which management aims to reduce. They relate to quality because their reduction entails improving quality by ensuring that workers do their tasks perfectly or right the first time. Contrary to Bateman and Snell’s (1999) view, quality costs are not the only costs involved in production and that require minimization. There is labor cost. The cost element (cost effectiveness) in the “Four C’s model” for evaluating human resource policies is labor cost (Stoner *et al*, 1996). It encompasses costs in terms of things like wages and benefits, turnover, and absenteeism, disputes and strikes etc. Minimizing cost in this perspective means keeping costs relating to these at minimum. To Stoner *et al* (1996), cost effectiveness is another way of looking at cost minimization or reduction. It goes beyond keeping cost at a minimum. For them it “means that human resource costs such as wages, benefits, and strikes are kept equal to or less than those of competitors” (Stoner *et al*, 1996). Their position is understandable. They have earlier declared that cost (labor cost) is one of the measures of a country’s competitiveness and have defined competitiveness as the relative standing of one competitor to another (Stoner *et al*, 1996). This brings us to the concept of strategic cost. A company’s strategic cost of a product is the cost of the internal activities involved in the production of that product relative to that of its rivals or competitors. It involves a price-cost competition aimed at achieving cost and price competitiveness. Thus, the issues of strategic cost relate to internal cost, relative cost, and the price at which a product is offered to the customer, which is also cost from the perspective of the customer. These are some of the issues addressed by Thompson and Strickland (2001) with this question about a company: “Are the company’s prices and costs competitive?” From the foregoing literature review, it is obvious that cost minimization involves reducing the total cost of quality, making labor cost effective and achieving cost and price competitiveness, an element of strategic cost. Consequently, cost minimization as a measure of corporate productivity performance employs the indices of quality costs, labor costs and strategic costs.

The last of our measures of the resource utilization dimension of corporate productivity performance is Waste Minimization. Waste or wastage refers to the less than maximum use of resources. London (2005) identifies three categories of wastages; namely: production, personnel and managerial wastages. She argues that an organization embraces waste minimization because with “fewer mistakes, fewer delays and better use of machine time and materials, productivity would inevitably improve....” This does not only suggest that waste minimization is a measure of productivity, it also suggests what wastages are minimized. A more comprehensive list of waste is provided by the “Muda” philosophy of the Toyota Production System (TPS) propounded by Ohno (Ultimate Business, 2002). This philosophy divides waste into seven categories: overproduction, transporting, inventories or unnecessary stock on hand, producing defective goods, unnecessary motion or excess movement, excess processing, and excess waiting time. The above philosophy was partly credited with the outstanding performance associated with Toyota. Before the introduction of this philosophy, Ohno realized that waste was prevalent in Toyota, and if this could be eliminated, productivity could increase (Ultimate Business, 2002). For the purpose of a convenient discussion of waste minimization as a measure of the resource utilization dimension of corporate productivity performance, the above listed wastes and others can be conceived to fall into three categories. Our categories are: (i) Quality Failures (such as mistakes and defects), (ii) Idle Capacity (delays, unused or underused resources, materials and equipment, and non-productive time), and (iii) Excess Items (such as those listed by Ohno with the “excess” qualifier).

PRODUCT DIMENSIONS

We have so far discussed measures of one dimension of corporate productivity performance. The other dimension, Product, is the focus of the next paragraphs. By this dimension, we mean the dimension of corporate productivity performance that deals with an organization's product lines, output levels, and product quality. Consequently, these have been selected as measures of this dimension in our Conceptual Framework (See Figure 1). Kotler (1999) defines a product as "any offering that can satisfy a need or want". He describes it as the most basic marketing mix tool and a key element in the marketing offering; and asserts that the: "customer will judge the offering by three basic elements: product features and quality, services mix and quality, and price appropriateness" (Kotler, 1999). Beyond the definition of a product, Kotler examines several aspects of it. According to him, a product mix has four dimensions namely: width, length, depth and consistency. To these, we wish to add a fifth dimension, growth – an all encompassing dimension. The product mix growth dimension encompasses the rest four dimensions and entails an increase or expansion of a business in four ways. Kotler (1999) lists these ways thus: widening product mix (adding new product lines), lengthening each product line (adding more product items to a product line), adding more product variety to each product line (deepening product mix), and pursuing more product-line consistency. In addition to the product line or mix growth, Kotler suggests line modernization, featuring and pruning. However, the pointers of the product line measure selected for this paper are: (i) Line Growth, (ii) Line Modernization, and (iii) Line Pruning.

Our next measure is output level. By output level we mean the quantity, amount or unit of a good or level of service that a company offers, desires to offer or can offer. This definition suggests three concepts of output level. These are actual, desired and potential output levels. While it is possible to have a coincidence of all three at the same level, it is not always so for one company at all times or for all companies. This accounts for differences in performance amongst companies; and sometimes for one company at different times. As companies differ in their characteristics so also they differ not only in the products they offer but also at the level at which they offer the same products. There is no doubt that the quantity would not be the same for all of them. No matter the direction of the differences, they are signposts of how well or poorly a company is performing. However, a more relevant frame of reference for output level indices is what we wish to call: (i) Same-resource Output level, (ii) Lesser-resource Output Level, and (iii) Greater-resource Output Level. The first defines output level in a situation where more of a product is produced with the same amount of resources. The second defines an output level in a situation where more of a product is produced using lesser amount of resources. The third defines an output level in a situation where more of a product is produced using more resources. May we quickly point out that corollaries of these are possible: less output at the same, lesser and greater input levels. Again, ours is an extension of Wright and Noe's (1996) thoughts that run thus: "The more the level of outputs exceeds the levels of inputs, the higher the organization's productivity. Thus, an organization can improve its productivity either by producing more with the same level of inputs or by producing the same amount with a lower level of inputs". This explains our choice of the three output – input relationships as indicators of the output level measure of corporate productivity performance. It also explains why these relationships, rather than the concepts of actual, desired and potential levels, are included in Figure 1.

As could be seen from Figure 1, our last measure is product quality. A quality product is a better-than-average product that performs to the level needed (Stoner *et al*, 1996). The production of such a product is a necessity; must be based on a quality concept; requires a quality approach; takes place within a quality context; and adopts a quality

framework. Given the focus of this work here, we shall briefly only examine the quality necessity, concept and framework. This is because we wish to show three things. First is why product quality has been chosen as a measure of corporate productivity performance? Second, what it is as a measure of corporate productivity performance? Third, how it is such a measure? The necessity of quality, concept of quality and framework of quality provide the needed illustrations respectively. Product quality is important for most organizations. According to Wild (1995): “Few customers will willingly acquire low quality items or services (and as such having) the organizational capabilities to deliver higher quality can be a major source, or one source, of competitive advantage”. For Kotler (1999): “One major value customers expect from vendors is high product/service quality (as most) customers will no longer accept or tolerate average quality”. Bateman and Snell (1999) consider quality as one of the four “bottom line” practices that organizations must deliver to their customers. According to them, managers must ensure attractiveness, lack of defects, reliability and dependability in everything their organizations produce to meet and exceed customers’ expectation of a product. This is because the “importance of quality, and standards for acceptable quality, has increased dramatically in recent years (and as such firms) cannot get by offering poor-quality products as they could a few years ago” (Bateman & Snell; 1999).

There are different concepts of quality. It has been commonly defined as the totality of features that characterize a product to satisfy stated or implied needs. Based on this definition, Kotler (1999) differentiates production and marketing quality, conformance and performance quality. For Barad (1998), “quality is looked at by quality gurus... from three viewpoints: customers, producer and society.” A better framework of quality concepts is provided by Wild (1995). Defining quality as “the extent to which an offering satisfies a need,” he offers three concepts. These are Product Quality, Design Quality, and Process Quality. While design quality refers to the degree to which the specification of a product satisfies customers’ requirements, process quality is the degree to which the product, when made available to customers, conforms to specifications. Product quality, on the other hand, is the degree to which a product satisfies customer requirements. According to Wild (1995), while the first two (design quality and process quality) determine product quality, they are also determined by a number of factors. However, our interest here is not on their determinants or how they determine product quality. Our interest is how product quality is a measure of corporate productivity performance. Quality, beyond being a policy option for companies, is an indicant of their performance. It shows error-free processes and systems, substantial quality assurance and control, and adequate system capability (Wild, 1995). A significantly positive correlation exists between product quality and return on investment, and this is because:

High quality business units earned more because their premium quality allowed them to charge a premium price; they benefited from more repeat purchasing, consumer loyalty and positive word of mouth; and their cost of delivering more quality were not much higher than for business units producing low quality (Kotler, 1999: 289).

Further explanations of the association of product quality and organizational performance are offered by Moorehead and Griffin (1995). First, more organizations are using quality as a basis of competition. Second, improving quality tends to increase productivity as making higher-quality products results in less waste and rework. Third, costs are lowered by enhanced quality. Finally, quality is also related to productivity – how much an organization is creating relative to its inputs. This last point is further expatiated by Wright and Noe (1996) in their assertion that an “Organization’s productivity is linked to quality (i.e. conforming to specification, avoiding defects, satisfying customers) because measures of productivity assume that outputs meet quality standards”. Quality standards do measure product quality. This is the point being made when Ultimate Business (2002) suggests that: “Quality can be assessed in terms of conforming to

specification, being fit for purpose, having zero defects and producing customer satisfaction.” A more encompassing list covering standards for both tangible (goods) and intangible (services) products has been provided by Wright and Noe (1996). From this list, we wish to pick the indices of the product quality measure of corporate productivity performance. According to this list, quality standards or measures include an acceptable percentage of (or zero) defects, range of tolerances, standards for purity, customer feedback (number of complains or product ratings), waiting time for service, and frequency of service problem correction. For our purpose here, we shall take three of these: one quality standard for goods, one quality standard for services, and one quality standard common to both goods and services. In view of the foregoing, our indices of product quality as a measure of corporate productivity performance are: (i) Percentage of Defects, (ii) Customer Product Rating, and (iii) Frequency of Problem Corrections.

CONCLUSIONS

In this paper, the controversy of how best to measure organizational performance has been examined. It was noted that neither those put forward by the Financialists (profitability, output volume, growth etc) nor the Strategists (market position and competitiveness) provide an adequate framework for measuring corporate performance; especially in the context of Organizational Behavior. There are, however, indications that there are more appropriate measures; and some of these were aggregated to provide a harmonist framework for measuring business performance beyond financial and strategic terms, Corporate Productivity Performance.

Figure 1 does not only diagrammatically lay out the discussion of the concept of Corporate Productivity Performance, it also suggests the implications for research. It progresses from concept to constructs or dimensions, to measures and then to index formation. Each of the elements for the index formation is a possible research questionnaire item just as the measures could serve as sources of research questions on a study involving corporate productivity performance. It can be used for both qualitative and quantitative research and data involving both primary and secondary sources. It is possible to add to, and/or subtract from, the framework of measures and indices depending on the scope of an intended research by following the suggested analytical plane. Finally, it will sure extend the frontier of the debate.

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